

Message Text

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ACTION ARA-14

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FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC IMMEDIATE 3112

UNCLAS SECTION 1 OF 2 KINGSTON 6798

FOR: LOCKARD LA/CAR

E.O. 11652: N/A

TAGS: PGOV, EINV, JM

SUBJECT: SENATOR RICHARD SCHWEIKER'S LETTER TO AID ADMINISTRATOR
GILLIGAN OF JULY 14

REF: A. SENATOR SCHWEIKER'S LETTER TO ADMINISTRATOR GILLIGAN OF
JULY 14; B. KINGSTON 6670; C. KINGSTON 3395

AS PER REF. B, EMBASSY HAS SUBMITTED SENATOR SCHWEIKER'S QUESTIONS
TO MINISTRY OF FOREIGN AFFAIRS AND HAS BEEN ASSURED THAT THE MINISTRY
IS GIVING HIGHEST PRIORITY TO THE INQUIRY. HOWEVER, OWING TO THE
IMPORTANCE OF THE MATTER, IT NOW APPEARS THAT NO INFORMATION WILL
BE RELEASED UNTIL A FORMAL REPLY HAS BEEN DRAFTED AND CLEARED BY
ALL GOJ MINISTRIES INVOLVED IN THE HOTEL ACQUISITIONS, WHICH IS
LIKELY TO TAKE SEVERAL MORE DAYS. THE FOLLOWING INTERIM REPLY TO
QUESTIONS IN REF. A IS BASED UPON MATERIAL IN OUR FILES.

A. HOLIDAY INN, MONTEGO BAY

1. BOTH THE 3,000 ACRES OF LAND AND THE STOCK IN ROSE HALL
LIMITED WERE SOLD TO THE URBAN DEVELOPMENT CORPORATION (UDC).
THE AMOUNT PAID FOR THE STOCK WAS \$8.5 MILLION, WHILE THE AMOUNT
REALIZED FOR THE 3,000 ACRE LAND TRACT WAS AN ADDITIONAL
US\$1 MILLION. THUS, THE \$9.5 MILLION PURCHASE PRICE FOR THE
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HOTEL INCLUDES THE PRICE PAID FOR BOTH STOCK AND LAND.

2. ALL OF THE PROCEEDS OF THE SALE DID NOT GO
THE CHASE MERCHANT BANKERS JAMAICA LIMITED, THE HOLDER OF THE
COLLATERAL (CONSISTING OF BOTH SHARES AND LAND) WHICH FORECLOSED
ON THE PROPERTY OWING TO DEFAULTS ON THE LOAN IT HAD GRANTED TO
ROSE HALL LIMITED. THE FIRST MORTGAGE ON THE HOLIDAY INN HOTEL

WAS HELD BY THE BANK OF NOVA SCOTIA OF TORONTO TO SECURE THEIR LOAN TO ROSE HALL LIMITED FOR US\$6.25 MILLION. THE PURCHASER OF THE HOTEL (THE UDC, A GOVERNMENT-OWNED CORPORATION) HAD TO ASSUME THIS MORTGAGE UPON ACQUIRING THE HOLIDAY INN.

3. WE HAVE NO KNOWLEDGE AT THIS POINT OF AN INDEPENDENT APPRAISAL OF THE VALUE OF THE ROSE HALL PROPERTY AT THE TIME OF IT ACQUISITION BY THE UDC. NOR DO WE KNOW ITS CURRENT REPLACEMENT VALUE. WE DOUBT THAT AN INDEPENDENT APPRAISAL OF THE PROPERTY WAS MADE AT THE TIME OR THAT A MEANINGFUL APPRAISAL VALUE EXISTS BECAUSE (A) THERE WAS NO ACTIVE MARKET FOR SUCH PROPERTIES AT THE TIME OF SALE AS NO COMPARABLE PROPERTIES WERE CHANGING HANDS (MR. ROLLINS' CLAIM THAT THE SALE OF THE INTER-CONTINENTAL HOTEL AT MONTEGO BAY WAS A COMPARABLE SALE IS DISPUTED BY CHASE); (B) THE REAL ESTATE AND TOURISM INDUSTRIES WERE SEVERLY DEPRESSED AT THE TIME THE SALE WAS EFFECTED.

4. WE UNDERSTAND THAT MR. ROLLINS FELT THE PROPERTY WAS REALLY WORTH ABOUT \$13 MILLION. IN LATE 1975, MR. ROLLINS AGREED TO SELL PROPERTY FOR \$14,250,00, A PRICE THAT WAS BASED ON HIS INCOME PROJECTIONS SUBMITTED TO THE UDC. BY MID APRIL 1976, THE UDC OFFERED A REVISED PURCHASE PRICE OF US\$13 MILLION BASED ON ITS ANALYSIS OF ACTUAL 1975 FINANCIAL RESULTS OF ROSE HALL (HI) LIMITED, OWNER OF THE HOTEL. THIS PRICE WAS ACCEPTED BY MR. ROLLINS. THERE IS THUS A STRONG PRESUMPTION THAT MR. ROLLINS BELIEVED THAT A PRICE OF \$13 MILLION WOULD COME CLOSE TO REPRESENTING THE UNCLASSIFIED

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FAIR MARKET VALUE OF THE HOTEL (WITHOUT THE 3,000 ACRE TRACT) AT THE TIME OF SALE.

5. THE DECLINE IN THE UDC OFFERING PRICE FROM \$13.0 MILLION IN 1975 TO \$8.5 MILLION IN 1977 WAS DUE, ACCORDING THE CHASE MERCHANTS, TO A REASSESSMENT OF THE HOTEL'S PROFITABILITY. THE HOTEL REPORTEDLY EXPERIENCED SUBSTANTIAL LOSSES IN 1976 AND 1977.

6. IT WOULD APPEAR THAT MR. ROLLINS SOLD HIS PROPERTY AT A PRICE SIGNIFICANTLY BELOW ITS 1975 VALUE AND, MOST LIKELY, ITS REPLACEMENT VALUE. HOWEVER, TO THE BEST OF OUR KNOWLEDGE, PRESSURE TO SELL WAS NOT APPLIED BY THE GOVERNMENT. CHASE MERCHANT BANKERS WHICH WAS ANXIOUS TO RECOVER ITS PRINCIPAL AND INTEREST, FORECLOSED ON THE COLLATERAL (THE HOTEL SHARES AND LAND). SERVICING OF THE LOAN, ACCORDING TO CHASE MERCHANTS, HAD BEEN IN DEFAULT SINCE AUGUST

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FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC IMMEDIATE 3113

UNCLAS SECTION 2 OF 2 KINGSTON 6798

FOR: LOCKARD LA/CAR

REF: A. SENATOR SCHWEIKER'S LETTER TO ADMINISTRATOR GILLIGAN OF
JULY 14; B. KINGSTON 6670; C. KINGSTON 3395

OF 1974. FORECLOSURE PROCEEDINGS HAD STARTED IN JANUARY 1976
BUT WERE DELAYED BY A STAY OF EXECUTION FROM THE SUPREME COURT
OF JAMAICA BETWEEN OCTOBER 1976 AND SEPTEMBER 1977.

7. WE UNDERSTAND MR. ROLLINS MADE NUMEROUS ATTEMPTS TO
SELL HIS PROPERTY PRIOR TO FORECLOSURE BUT WAS NOT ABLE TO DO
SO OWING TO THE DEPRESSED REAL ESTATE MARKET AND THE FACT THAT
THE HOTEL WAS REALIZING LOSSES. ACCORDING TO CHASE MERCHANT
BANKERS, THE GOVERNMENT-OWNED UDC WAS THE ONLY POTENTIALLY
INTERESTED BUYER AT THAT TIME. IT APPEARS THAT AT THE TIME OF
SALE MR. ROLLINS WAS FACED WITH THE UNHAPPY COMBINATION OF DEFAULT,
FORECLOSURE, LOSSES EXPERIENCED IN OPERATING THE HOTEL AND
ABSENCE OF INTERESTED BUYERS.

B. ROSE HALL INTERCONTINENTAL HOTEL

1. THE REPORTED GROSS VALUE OF THE HOTEL WAS ESTIMATED
AT \$23 MILLION BY THE GOVERNMENT AND AT \$24 MILLION BY
MR. ROLLINS. THESE FIGURES REFER TO THE VALUE AGREED UPON
BETWEEN BUYER AND SELLER AT THE TIME OF SALE. IT IS NOT NECESSARILY
THE REPLACEMENT COST, BUT CAN BE ASSUMED TO REPRESENT THE PROPERTY'S
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APPRAISED FAIR MARKET VALUE SINCE NO COMPLAINT WITH RESPECT TO
PRICE WAS MADE BY EITHER SIDE. AS REPORTED IN REF. C, THE HOTEL
HAD DEBTS AMOUNTING TO \$15 MILLION WHICH THE UDC HAD TO ASSUME SO
THAT THE GOVERNMENT HAD TO PAY ONLY \$8 MILLION, OF WHICH \$2.3 MILLION
WAS PAID IN CASH. THE BALANCE WAS TO BE REPAID OVER A PERIOD OF

SEVERAL YEARS. MR. ROLLINS, WHO WAS ALSO A PARTY TO THIS SALE,
NEVER QUESTIONED THE FAIRNESS OF THIS PRICE.

2. IT IS SUGGESTED THAT THE DEPARTMENT CHECK ON THE
PROPERTY'S APPRAISED OR REPLACEMENT VALUE AT THE TIME OF SALE
WITH THE MANAGEMENT OF THE INTERCONTINENTAL HOTELS CORPORATION,
200 PARK AVENUE, NEW YORK, TEL. (212) 973-2500, MR. ROBERT
STRACHAN, EXECUTIVE VICE PRESIDENT, FINANCE.

C. THE ROYAL CARIBBEAN

1. THE ONLY INFORMATION WE HAVE ON THE ROYAL CARIBBEAN IS
THAT, ACCORDING TO THE GOJ, THE HOTEL WAS OFFERED FOR SALE TO THE
GOVERNMENT BY RAMADA INNS FOR A PRICE OF US\$500,000, AN OFFER
WHICH WAS ACCEPTED BY THE UDC, AND THAT THE SALE WAS EFFECTED IN
NOVEMBER 1977. THE SALE DOES NOT APPEAR TO HAVE BEEN MADE UNDER
PRESSURE. WE SUGGEST THAT THE DEPARTMENT CALL RAMADA INNS IN
PHOENIX, ARIZONA (TEL. (602) 273-4000, THOMAS E. MARTIN,
CONTROLLER) TO VERIFY THAT THEIR
ASKING PRICE WAS ACCEPTED BY UDC; AND WHETHER THEY
CONSIDER THAT THE ALUE RECEIVED REPRESENTS THE FAIR MARKET PRICE
OF THE PROPERTY AT THE TIME.

2. ANY ADDITIONAL INFORMATION PROVIDED BY THE GOVERNMENT
IN RESPONSE TO OUR INQUIRY WILL BE CABLED AS SOON AS RECEIVED.
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